



Microsoft

We have been doing quite a bit of investing since our last newsletter. We sold our Microsoft and our accounts made up to 20% in profit. We originally bought MSFT because it was worth \$5 a share in cash and decided to pay a \$3 dividend to the shareholders. We sold right before the dividend was payable because the next day, the stock opened \$3 a share lower due to the dividend.

A 5 to 20% return is not too bad. We would like to get a large return on all of investments but as someone once told me, "You can't kiss all of the girls".

UnumProvident

UnumProvident has had some good news lately. The company has announced that they have settled with most of their insureds for outstanding claims. UNM fell on news that Eliot Spitzer, attorney-general of New York, was suing insurance brokers over unethical fee arrangements. However, with recent good news, the stock is back up to about where we began buying it for clients.

The Finish Line

Our position in Finish Line is up as high as 25% in some accounts. Not bad considering we bought it only a few months ago.

The Finish Line is a shoe retailer very similar to Foot Locker. We bought the company because it is rapidly expanding across the United States and is very profitable. At the time, FINL had a price to earnings ratio of 15. That is very low for a company that has this type of growth.

We currently are not buying FINL for new accounts because the stock is no longer such a good buy. We plan on holding FINL for many years and hope to get a high return from this stock.

Toyota Industries

Another stock that we have been adding to our portfolios is Toyota Industries. TYIDF.pk makes parts for manufacturers in Japan, fork lifts, and other industrial products. This is not to be confused with Toyota Motors, though the two are closely related.

Toyota Industries is trading at a large discount compared to what the company is worth. TYIDF.pk holds a large portfolio of Toyota stock and other Japanese companies and has very little debt.

This company has several things in its favor. If the Yen keeps appreciating against the dollar, our position will increase in value. If its portfolio of Toyota stock keeps rising, this too will help.

And if the stock trades at what the company is actually worth per share, we could see quite an appreciation.

The American Dollar

There has been quite a bit of talk lately about the American dollar weakening against other currencies. This could continue happening for several reasons. The first is higher inflation. If inflation rises, foreigners can buy less American goods with our dollars because our goods will become more expensive relative to theirs. This is one of the main reasons for currency fluctuations.

The second reason is foreign investment in the U.S. As you may know, we are running a deficit in trade. However, that is only part of the picture. We are running a surplus of foreign investment in our stocks, bonds, and real estate. This is what is keeping the dollar so strong. As these investments "cool off", foreigners will sell these investments, sell the American dollar, and buy back their own currency. This could devalue our assets and dollar and increase their assets and currencies. Thus far, this has occurred.

If you throw oil into the equation, it makes things even stickier. Higher oil prices will mean higher inflation and lower profits for most companies. It also means that we must sell more American dollars to buy foreign oil, once again depreciating our currency and appreciating foreign

currencies.

To mitigate this effect, we have been buying a foreign bond fund for our clients. If the dollar continues to weaken, this fund could perform quite nicely. In addition, most foreign bonds are yielding about 4%. The risk is that the American dollar appreciates and we lose money in our position.

The fund that we chose is the T. Rowe Price International Bond Fund. We like this fund because it is a no-load fund and it is unhedged. Unhedged means that it will fluctuate with the currencies, which is what we want.

We only bought this fund for retirement accounts because it pays its annual dividend in December and we did not want taxable accounts to get hit with the tax burden. After it pays the annual distribution, we will buy for non-retirement accounts as well.

Third Avenue Value

For our smaller accounts, such as Roth IRAs and college savings accounts, we have been buying the Third Avenue Value fund. We do not buy individual stocks and bonds for smaller accounts due to diversification issues. This fund specializes in buying depressed companies and selling them as their value rises.

TAVFX has a long and distinguished track record. Since 1990, it has had an annual compound return of about 14%. That means that about every five years, their shares doubled in value.

The fund is managed by the famous Marty Whitman. Mr. Whitman is frequently quoted in *Barron's* and the *Wall Street Journal*. Recently, Mr. Whitman made a naming gift to the School of Management at Syracuse.

I am sure that you have been reading about K-Mart in the news. TAVFX is the second largest holder of K-Mart. This position in K-Mart has paid off handsomely. Our clients have seen their shares in TAVFX appreciate over 8% in the last two months.

Year End Tax Considerations

The end of the year brings many things to consider in regard to taxes when investing. Investors must be careful about buying mutual funds in non-retirement accounts at the end of the year. Toward the end of the year, mutual funds pay a distribution for any long or short term profits they have made.

The distribution shows shareholders how much they must pay in taxes. The short term distributions are for any profits made in securities held for less than a year. These gains are taxed as ordinary income. The long term gains are made for securities held longer than a year. These gains are taxed at 15%.

What most people don't realize is that if your mutual fund falls in value, you can still pay taxes because the fund might have had taxable gains.

Tax-Loss Selling

At the end of the year, investors sometimes take a loss on a security to offset the gain on another security. This is called tax loss selling. You may buy back the security sold at a loss after 31 days to still claim the loss. First, long term gains are netted against long term losses and short term gains are netted against short term losses. As mentioned in the previous sections, short term is any security held less than a year.

If your losses are larger than your gains, you may carry \$3000 a year in losses over to the next year. So if you have \$9000 in losses, you may carry over losses of \$3000 a year for the next three years. We are not currently partaking in tax loss selling because we do not want to dispose of any of our investments.

Oil

We wanted to make a quick comment on oil since there has been so much talk lately. We do not know the direction of the price of oil but a lot of bright people that we know own oil stocks. We would avoid large cap American mutual funds because these look to be the most vulnerable. These funds include index funds and most of the popular U.S. funds that you hear about. We are being much more selective with our investment choices to try to avoid any problems that a rise in oil might bring.

Experience

Holmes Osborne began his career as a financial consultant for Merrill Lynch Private Client Group in Naples, Florida. At Merrill Lynch Mr. Osborne assisted clients in asset management and estate planning. After Naples, Mr. Osborne managed trust portfolios for Merrill Lynch Trust Company (a division of Merrill Lynch's mutual fund division) in Boca Raton, Florida. The trust department managed over \$1 billion in clients' assets. After Florida, Mr. Osborne worked in management for Farmers Insurance Group in Los Angeles, California.

Mr. Osborne has a degree in finance from the Martin J. Whitman School of Management at Syracuse University. Licenses held are Series 7, 63, 65, and 26. Member of the CFA Society and Los Angeles Society of Financial Analysts and holder of the Chartered Financial Analyst designation. Mr. Osborne is President of the Syracuse University Alumni Association of Southern California.

Fidelity Investments

<http://www.fidelityinvestments.com>

Clients' assets are held in custody at Fidelity Investments. At Fidelity, clients may have online access and will receive monthly statements.

All clients' information is kept in the strictest confidentiality.

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